

Message Text

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ACTION COME-00

INFO OCT-01 AF-04 ISO-00 EB-07 FEA-01 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 DODE-00 FPC-01 H-01 INR-05 INT-05

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SP-02 SS-15 STR-01 TRSE-00 FRB-01 PA-01 PRS-01 USIA-06

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R 221549Z NOV 74

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 6935

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E.O. 11652: N/A

TAGS: ENRG, BEXP, BMEP, NI, US

SUBJ: NIGERIAN LNG PROJECTS

REF: (A) STATE 225186; (B) LAGOS 09670

SUMMARY: CONVERSATIONS BY EMBASSY AND VISITING DEPARTMENT OF COMMERCE OFFICER WITH NIGERIAN GOVERNMENT AND ALL FOUR COMPANIES WITH CURRENT PROPOSALS FOR NIGERIAN LNG FACILITIES REVEALS EAGERNESS TO MOVE RAPIDLY AS SOON AS NUMBER OF PROPOSALS ARE REDUCED FROM FOUR TO TWO, A DECISION GOVERNMENT IS EXPECTED TO TAKE WITHIN FOUR MONTHS. US PROCESS LICENSORS, MANUFACTURERS OF LNG EQUIPMENT, DESIGN ENGINEERS, CONSTRUCTORS, AND SHIPYARDS SHOULD ACT NOW TO MAXIMIZE US CONTACT ON BOTH PROJECTS, ESPECIALLY BECAUSE NIGERIAN GOVERNMENT HAS INDICATED ITS INTENTION TO PARTICIPATE DIRECTLY IN THE SELECTION OF SUCH FIRMS. FAILURE OF USG TO DECIDE SOON THAT US ECONOMY REQUIRES LNG IMPORTS MAY MEAN THAT NIGERIAN LNG WOULD BE MARKETING IN EUROPE. END SUMMARY.

1. EMBOFF AND VISITING MEPD PROJECT OFFICER TALKED

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THIS WEEK AND LAST WITH LOCAL MANAGERS OF EACH COMPANY WITH

CURRENT LNG PROPOSAL (SHELL-BP, GULF, PHILLIPS, AND TENNECO) AS WELL AS S. M. AKPE, MINISTRY OF MINES AND POWER, AND DR. E. C. IBE, NIGERIAN NATIONAL OIL CORPORATION. LATTER ARE BOTH MEMBERS OF THREE-MAN NIGERIAN TEAM WHICH COMPLETED ITS STUDY OF IMEG REPORT AND SUBMITTED ITS RECOMMENDATIONS TO POLICY-MAKING LEVEL OF MMP ON NOVEMBER 12. GENERAL IMPRESSION GAINED FROM TALKS IS THAT MMP INTENDS ACT PROMPTLY ON THE EXPERTS' RECOMMENDATIONS AND FORWARD THEM TO THE FEDERAL EXECUTIVE COUNCIL FOR FINAL DECISION SOMETIME IN FIRST QUARTER 1975. IT APPEARS THAT EXPERTS FAVOR SHELL-BP AND EITHER GULF OR PHILLIPS WITH THE TWO PROJECTS TO BE EXECUTED ALMOST SIMULTANEOUSLY.

2. IT ALSO APPEARS THAT, AS MAJORITY SHAREHOLDER, FMG IS EXPECTING TO PLAY DIRECT ROLE IN CHOICE LIQUIFICATION PROCESS, DESIGN ENGINEER, CONSTRUCTOR, AND TANKER PROCUREMENT. AKPE AND IBE BOTH SAID IT WOULD BE INCUMBENT ON TECHNICAL PARTNERS WHO ALREADY FAVOR CERTAIN PROCESSES, DESIGNERS, ETC., TO PROVE TO FMG WHY THEY ARE BEST CHOICE FOR NIGERIA. SLIP OF TONGUE BY IBE INDICATED THAT FMG NOW CONSIDERS 55 PERCENT EQUITY A MINIMUM WITH ACTUAL FMG SHARE MORE LIKELY 60 PERCENT. ALL THIS LEADS US TO BELIEVE PROPOSALS MAY BE ALTERED CONSIDERABLY ONCE TECHNICAL PARTNERS ARE CHOSEN.

3. EMBASSY AND MEPD OFFICER EMPHASIZED TO THE NIGERIANS THE USG INTEREST REGARDING NIGERIAN PROCUREMENT OF U.S. ENGINEERING/ CONSTRUCTION SERVICES AND EQUIPMENT AS WELL AS U.S. PROCESS TECHNOLOGY AND U.S.-BUILT TANKERS, NO MATTER WHICH PROPOSALS WERE CHOSEN. THEY ALSO POINTED OUT THAT OUR INTERESTS SHOULD BE COMPATIBLE WITH NIGERIA'S INTERESTS IN THAT THE U.S. HAS PROVEN SUPERIOR LNG CAPABILITY. THEY NOTED HISTORY OF PROBLEMS WITH FRENCH PROCESS IN ALGERIA WHICH SHELL-BP IS PLANNING TO UTILIZE IN NIGERIA, AND POINTED OUT THAT SHELL SUCCESSFULLY USED AIR PRODUCTS PROCESS IN BRUNEL.

4. SINCE NIGERIANS EXPECT TO PLAY DIRECT ROLE IN PROJECT, COMMERCE/MEPD SHOULD CONTACT DESIGN/CONSTRUCTORS AND SUGGEST THAT MORE AGGRESSIVE SALES PITCH BE MADE DIRECTLY TO THE NIGERIANS. IN DISCUSSION WITH COMPANY MANAGER, GULF INDICATED AGREEMENT WITH BECHTEL, ALTHOUGH TO OUR KNOWLEDGE BECHTEL HAS NOT SPOKEN TO NIGERIANS DIRECTLY RE LNG. SHELL-BP PLANS TO UTILIZE LIMITED OFFICIAL USE

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TECHNIP-AIR LIQUID DESIGN AND WILL ENGAGE PROJECT MANAGER TO CONSTRUCT FACILITY. SHELL-BP CITED FOSTER WHEELER, PARSONS, AND CHEMICO AS ABLE TO DO THE JOB. PHILLIPS MANAGER, IN ANSWER TO DIRECT QUESTION, BLUNTLY SAID THAT SNAM PROGETTI DOES NOT REPEAT NOT WANT TO ACT AS CONSTRUCTOR, AND THAT PHILLIPS/AGIP HAS SUBMITTED TO NIGERIANS LIST OF ALL CAPABLE U.S. ENGINEERING FIRMS, INDICATING PREFERENCE FOR FLUOR. (IMPRESSION GIVEN, HOWEVER, THAT AGIP WAS PUSHING FOR LARGE PORTION OF EQUIPMENT

PROCUREMENT FROM ITALY.) TENNECO WOULD GO WITH PROCON.

5. NIGERIANS WERE ASKED WHETHER THEY HAD CONSIDERED POSSIBILITY OF RESTRUCTURING ONE OR BOTH PROJECTS, USING BEST FEATURES OF ALL FOUR PROPOSALS. TENNECO PROPOSAL FOR EXAMPLE WOULD ALLOW NIGERIANS TO OWN AND CONTROL ALL GAS UP TO THE POINT OF EXPORT. NIGERIANS SAID THEY CONSIDERED THIS ALTERNATIVE, PARTICULARLY IN LIGHT OF TENNECO'S SUPERIOR MARKETING CAPABILITY, AND HAD EVEN CONSIDERED A SEPARATE GOVERNMENT-OWNED GAS GATHERING NETWORK. HOWEVER, ADDITIONAL TIME AND COST INVOLVED SEEMED TO NEGATE THIS IDEA. FURTHERMORE, THEY SEEM TO FEEL TENNECO COULD STILL PURCHASE NIGERIAN LNG EVEN IF OTHER COMPANIES' PROPOSALS ARE CHOSEN FOR THE PRODUCTION FACILITY. (EMBASSY INTERPRETS THIS AS FURTHER EVIDENCE AGAINST TENNECO'S PROPOSAL.) MAIN PROBLEM AT THIS TIME WITH ANY JOINT VENTURE SEEMS TO BE ADDITIONAL DELAY INVOLVED. NIGERIANS SAY THEY ARE VERY EAGER TO MOVE QUICKLY.

6. IN REGARD TO PROCUREMENT OF TANKERS, THE NIGERIANS SEEM TO FAVOR A NIGERIAN FLAG FLEET WITH FMG MAJORITY OWNERSHIP. WHILE THEY ARE INTERESTED (AND SOMEWHAT CONFUSED) RE MARAD FINANCING PROGRAMS, THEY ARE SKEPTICAL BECAUSE A NIGERIAN FLAG FLEET WOULD MAKE THEM INELIGIBLE UNDER MARAD PROGRAMS. DIRECT SALE WITHOUT MARAD SUPPORT WAS DISCUSSED.

7. POINT MADE BOTH TO NIGERIANS AND TO POTENTIAL OPERATING PARTNERS THAT IF NIGERIANS PLAN TO APPLY FOR EXPORT OF GAS TO THE U.S., A PACKAGE INCLUDING MAXIMUM U.S. PROCUREMENT AND PARTICULARLY AMERICAN BUILT TANKERS UNDER U.S. FLAG (WITH PARTIAL NIGERIAN OWNERSHIP) WOULD ENHANCE ATTRACTIVENESS TO USG OF SUCH AN APPLICATION.

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ACTION COME-00

INFO OCT-01 AF-04 ISO-00 FEA-01 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 DODE-00 EB-07 FPC-01 H-01 INR-05

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 PA-01 PRS-01

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TO SECSTATE WASHDC 6936

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8. CONSIDERABLE PORTION OF DISCUSSIONS WITH BOTH AKPE AND IBE DEVOTED TO U.S. POLICY AND PROCEDURES ON LNG IMPORTS. OPERATING PARTNERS AND NIGERIANS ALL SEEMED TO PREFER THE U.S. MARKET. HOWEVER, THERE IS SKEPTICISM RE CURRENT ATTITUDE OF USG ON LNG IMPORTS. RECENT NIGERIAN CONTACT WITH USG OFFICIALS BOTH IN WASHINGTON AND AT LNG-4 CONFERENCE IN ALGERIA HAVE LEFT IMPRESSION USG LACKS INTEREST IN LNG IMPORTS, AND NIGERIANS ALSO TAKING ACCOUNT OF LENGTH AND UNCERTAIN OUTCOME OF FPC PROCEDURES AND LACK OF INFORMATION ABOUT PRICE GUIDELINES WHICH THE U.S. MIGHT CONSIDER. NIGERIANS AND COMPANIES INDICATED THAT ONCE TECHNICAL PARTNER IS CHOSEN, DECISIONS ON MARKET, PROCUREMENT, AND FINANCING WILL BE MADE AS RAPIDLY AS POSSIBLE, AS ALL PARTIES ARE ANXIOUS TO MOVE AHEAD.

9. COMMENT: THE IMEG STUDY AND SUBMISSION OF MMP RECOMMENDATIONS COMPLETES THE REVIEW PROCESS ORDERED LAST JANUARY BY THE FEC. ALTHOUGH FURTHER DELAY REMAINS A DISTINCT POSSIBILITY, A SCENARIO HAS BEEN SET IN MOTION BY WHICH THE FEC SHOULD APPROVE THE SELECTION OF PROPOSALS AT LEAST IN TIME FOR THE HEAD OF STATE'S BUDGET SPEECH APRIL 1, 1975. THE NIGERIANS AND COMPANIES AGREE THAT, ONCE THIS HAS BEEN DONE, IMPLEMENTATION
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OF BOTH PROJECTS WILL PROCEED RAPIDLY. FOR THE MOMENT, THE NIGERIANS AND THEIR POTENTIAL PARTNERS ARE COUNTING ON THE U.S. MARKET, AT LEAST OVER LONG TERM. DUE IN PART TO APPARENT LACK OF CONCERN IN WASHINGTON ABOUT NEED FOR IMPORTED LNG, LACK OF ANY PRICE GUIDELINES, AND ANTICIPATED LENGTH OF FPC PROCEDURES, THEY ARE, HOWEVER, EYEING EUROPEAN MARKET EITHER FOR INITIAL SALES OR AS COMPLETE ALTERNATIVE TO U.S. MARKET. FAILURE OF USG TO DETERMINE WITHIN NEXT FDW MONTHS THAT IMPORTED LNG IS NECESSARY ELEMENT OF OUR FUTURE ENERGY REQUIREMENTS AND TO TAKE APPROPRIATE STEPS TO ENCOURAGE LNG IMPORTS MAY MEAN THAT ALL NIGERIAN LNG FOR FORESEEABLE FUTURE WOULD GO TO EUROPE AND THAT U.S. WOULD HAVE TO TURN TO MORE DISTANT OR POLITICALLY LESS RELIABLE SOURCES OF LNG. IN SHORT, ALTHOUGH U.S. CURRENTLY PREFERRED MARKET FOR NIGERIAN LNG, IT IS NOT LIKELY TO REMAIN SO MUCH LONGER, UNLESS USG ACTS TO MAKE IT CLEAR THAT U.S. MARKET OPEN TO NIGERIAN LNG AND THAT CONDITIONS OF ENTRY AND RETURNS COMPARABLE TO THOSE IN EUROPE.

10. DEPARTMENT PLEASE INSURE THAT DISSEMINATION OF THIS MESSAGE
IS MADE TO TREASURY, INTERIOR, COMMERCE, MARAD, FEA, FPC AND
EXIMBANK.
REINHARDT

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